

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

244513

ENTERED
Office of Proceedings
October 11, 2017
Part of
Public Record

**PUBLIC LISTENING SESSION
REGARDING CSX
TRANSPORTATION, INC.'S RAIL
SERVICE ISSUES**

Ex Parte No. 742

WRITTEN STATEMENT OF E. HUNTER HARRISON

As President and Chief Executive Officer of CSX Corporation, I welcome the opportunity to appear before the Board today. Members of CSX's executive management team and I are here at this Listening Session both to speak and to listen. We will be speaking about our efforts to transform and improve CSX's operating model; to create a superior service product for our customers; and to address some of the challenges that we have faced in implementing these operational improvements. And we are also here to listen to questions or concerns that our customers, the Board, and other stakeholders may have about the operational changes underway at CSX and how we plan to meet our customers' service needs in the future.

This has been a dynamic time for CSX, our customers, shareholders, and employees. CSX is working tirelessly to implement an operating plan that will provide profound and lasting benefits for our stakeholders – all enabled by the hard work and dedication of our employees. We remain confident in our efforts and are fully committed to delivering a markedly superior service product for our customers.

My written statement covers three topics. First, I briefly describe Precision Scheduled Railroading and why it is a tested and proven operating plan that will improve service to CSX's customers. Second, I discuss the significant steps that CSX is taking to implement Precision Scheduled Railroading throughout the organization. Third, I explain how we worked to resolve the operating challenges we experienced while implementing this fundamental change, and I summarize the significant service improvements that are beginning to benefit our customers.

I. Precision Scheduled Railroading Has a Proven Track Record of Success.

CSX is in the midst of a fundamental transformation of its operating model: the adoption of Precision Scheduled Railroading across our extensive rail network and throughout our organization. Our implementation of Precision Scheduled Railroading is not an experiment with new ideas or a test run of a theoretical model. Over the last twenty-plus years, Precision Scheduled Railroading has been implemented in three Class I railroads: first the Illinois Central, then Canadian National, then Canadian Pacific. This operating model transformed those railroads into the highest-performing railroads in North America.¹ Precision Scheduled Railroading is driving the same transformation at CSX, and will help our railroad set new standards for service, safety, customer satisfaction, and financial performance.

¹ Illinois Central merged with Canadian National in 1999.

Precision Scheduled Railroading is driven by five guiding principles: improving customer service; controlling costs; optimizing asset utilization; operating safely; and valuing and developing employees. From an operating perspective, Precision Scheduled Railroading requires constant monitoring and optimization of every railroad asset and every detail of the network. Under this model, decisions about how to structure operations or allocate assets cannot be justified by saying “that’s how things used to be done.” Rather, we have to closely examine every decision to determine the best operating strategy now. Precision Scheduled Railroading requires intensive focus on maintaining a balanced train network, on reducing freight transit time by minimizing crew handlings, and on scheduling each car and train in a way that delivers optimal results for our customers. The ultimate goal is to create a railroad that can offer superior service over the long term through faster transit times, more consistent traffic flows, and timely and efficient service.

II. CSX Has Made Transformational Changes to Realize the Benefits of Precision Scheduled Railroading.

A railroad cannot work well from two separate operating plans, so CSX’s adoption of Precision Scheduled Railroading has been implemented quickly throughout the organization. We knew that the sooner we implemented Precision Scheduled Railroading, the sooner our customers would begin to realize the benefits of its superior operating model. So we’ve made systematic changes over a short period of time to institute Precision Scheduled Railroading at every level of CSX.

Some of these systematic changes have been made in train operations, where inefficient unit trains have been consolidated into the merchandise network. By

fully utilizing the capacity of our merchandise network to handle that traffic, we can optimize train lengths and reduce the total number of trains on the network. Having fewer trains carrying the same amount of traffic allows us to decrease congestion, increase train velocity, and provide better service overall.

Other changes have been implemented in our yard operations, where we have worked to achieve the right balance of hump facilities and flat switching yards. During the first four months of Precision Scheduled Railroading implementation, CSX transitioned hump facilities in Atlanta, Hamlet, Stanley, Cumberland, and Louisville into flat switching operations. This reduced freight handlings and transit time for traffic processed at these terminals. We then turned to the southwest part of our network and converted Birmingham and Nashville to flat yards, and subsequently did the same at Avon. We have since resumed humping operations in Avon to relieve regional congestion, leaving us with five active hump yards. The goal is to find the right balance of hump and flat yards as we pursue optimal processing efficiency to best serve our customers.

We have also incorporated Precision Scheduled Railroading principles into our asset utilization monitoring. Early in our implementation efforts, CSX undertook an extensive review of its assets and found opportunities to right-size its equipment base in line with the new operating model. Close monitoring of our assets allows us to adjust asset levels as circumstances warrant. CSX will continue to analyze opportunities to right-size all company assets and align its workforce

with business needs. An example of this is our plan to centralize nine of our current dispatching offices to Jacksonville for the better management of key corridors.

In addition, we have adopted a series of new service metrics that more accurately monitor the health and efficiency of our railroad and hold us accountable for meeting our goals. We believe these metrics (which are available on our website at www.csx.com/servicemetrics) are a better gauge of actual performance. For example, our revised metric for train velocity measures total miles traveled per hour for a train's full trip (including intermediate dwell) and does not merely measure velocity while on the line of road. Including intermediate dwell time provides a more accurate measure of a train's actual velocity over the network.

These are of course only a few of the many changes that we are effecting throughout the organization as CSX adopts Precision Scheduled Railroading. But they serve to illustrate the significant changes that have been necessary to adopt this new operating model and the substantial progress that CSX has already made in its implementation.

III. CSX Has Worked Aggressively to Address Service Challenges, and Precision Scheduled Railroading Is Beginning to Deliver Improved Service.

Our company's success ultimately comes down to the people who run the railroad. CSX's dedicated employees operate a 23-state network, shipping more than six million units to nearly 3,300 customers at over 6,000 locations across 21,000 miles of track each year. CSX consistently strives to meet customer expectations. Inevitably, there are some missteps, some challenges, and some complaints. When issues arise, we work hard to address concerns and bring

legitimate issues to resolution expeditiously. And when there's an opportunity for improvement, we do it.

The changes CSX has made have been profound and purposeful – to help us effectively realize the benefits of Precision Scheduled Railroading – and had to be implemented quickly. Changes of this magnitude tend to give rise to temporary challenges. That has proven true for CSX in recent months, as our people and our company adjusted to these operational changes. Notably, from mid-to-late July, congestion impacted some regional traffic flows, resulting in some intermittent service issues with customers. And we recognize that some of our customers have not felt that we have communicated with them as effectively as we could have. But we have worked aggressively to reduce congestion, to solve service problems, and to ensure that we are effectively communicating with our customers about their concerns and about solutions.

We have been intensely focused on these issues, and we have begun to see positive results. Service levels have stabilized and steadily improved over the past two months. For example, in July we experienced terminal fluidity issues in some of our Western terminals as our teams adjusted to the new operating plan. Average dwell at key Western terminals peaked at around 22 hours in late July, up from around 16 hours in June. But we have now largely worked through those issues. Dwell times are down across the network and are significantly down at key Western terminals. Average dwell is below 13 hours at these locations, and we have a good level of fluidity at all our terminals.

Key network measures show that we have been making steady progress since early August. Indeed, several key metrics are now at better levels than they were before we began the transition to Precision Scheduled Railroading. For example, dwell is now lower than CSX's 2016 full-year average dwell, and velocity is now higher than the 2016 full-year average. Similarly, scheduled merchandise transit times are now faster than they were at the outset of Precision Scheduled Railroading implementation in the first quarter of 2017. And we have achieved this improved service in the face of the significant disruption that Hurricane Irma caused to our network last month. In short, Precision Scheduled Railroading is delivering improved results and better service for our customers.

Additionally, CSX has intensified our customer service engagement. We have reemphasized to our teams the importance of timely, engaged, and responsive communications with our customers in our transition to Precision Scheduled Railroading. Customer service concerns can best be resolved on a customer by customer basis and by focusing on a customer's individual needs. In response to recent customer concerns, CSX positioned commercial and customer service personnel at challenged field locations to bridge communication gaps and target concerns at the local level. Today, we have more than 200 dedicated, full-time commercial and customer service representatives, who are working closely with our local operating teams, to aggressively resolve customer issues quickly. CSX's efforts to respond to its customers' needs are well illustrated by the trainloads of grain,

protein, and commodity feed that CSX and other entities worked to deliver to Florida dairy producers in the wake of Hurricane Irma.

Our customers are starting to see the benefits of these improvements. The daily customer issue logs that we create to track customer inquiries about delayed cars, bad order cars, and switch issues are down over 50% from the height of our network challenges, and they now represent less than 1% of daily originations and less than 0.2% of active cars online.

The Board has begun to hear from some customers that are seeing the service benefits of Precision Scheduled Railroading. Several have reported that, while they experienced some disruptions during the initial implementation of Precision Scheduled Railroading, they now are seeing substantial service improvements.² One coal customer stated that it has seen “reduced dwell times and improved total transit times and effective crew utilization.”³ Another customer commented that “Now, rail service is BETTER than it has ever been in our 30 year history. I would have never dreamed that the new operating plan could result in car turns of as low as four days.”⁴

² See, e.g., Letter from Alpha Natural Resources, Ex Parte No. 742 (filed Sept. 29, 2017) (“we’ve seen improved service over the last 6 weeks and are pleased with the progress . . . CSX has performed very well during the month by showing responsiveness with car supply and executing with on-time performance. We look forward to the continuation of CSX’s good efforts and communications”); Letter from Blackhawk Mining, LLC, Ex Parte No. 742 (filed Sept. 29, 2017) (“Since the beginning of September, we have been pleased to see a significant turnaround in service. Service has become more consistent and CSX’s responsiveness to resource and car supply issues has greatly improved.”).

³ Email from Warrior Met Coal, Ex Parte No. 742 (filed Sept. 28, 2017).

⁴ Letter from Sand-Rock Transit, Inc., Ex Parte No. 742 (filed Sept. 29, 2017).

While we believe that many of our customers are already seeing the benefits of Precision Scheduled Railroading, we understand that other customers remain concerned about our operating changes, and we will continue to work to resolve these concerns. We hope that all our customers will recognize that the overall objective of CSX's new operating plan is to become a railroad that will offer a markedly better service product than our customers received before Precision Scheduled Railroading was instituted. Precision Scheduled Railroading will help us do that by improving transit times and enhancing reliability, which will result in more consistent freight flows across the CSX network and provide a competitive advantage for our customers.

* * *

In conclusion, I welcome this opportunity to provide the Board a report on our progress. On behalf of CSX, we look forward to continuing the dialogue with the STB as we implement Precision Scheduled Railroading and strive to create lasting value for our customers, our shareholders, and our employees.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'E. Hunter Harrison', is written over a horizontal line.

E. Hunter Harrison
President and Chief Executive Officer
CSX Corporation

Dated: October 11, 2017